

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Missaukee District Library	County Missaukee
Audit Date 12/21/05	Opinion Date 1/30/06	Date Accountant Report Submitted to State: March 3, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 West Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 3/27/06	

MISSAUKEE DISTRICT LIBRARY

LAKE CITY, MICHIGAN

DECEMBER 31, 2005

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M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
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JOHN H. BISHOP, C.P.A.
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JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2006

INDEPENDENT AUDITORS' REPORT

Missaukee District Library
210 South Canal
Lake City, Michigan 49652

We have audited the accompanying basic financial statements of the Missaukee District Library as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Missaukee District Library management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Missaukee District Library as of December 31, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information on pages 2-6 and 23-24 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.



Missaukee District Library

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Management's Discussion and Analysis For Fiscal Year Ended December 31, 2005

The Missaukee District Library, a Public Library located in Missaukee County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Missaukee District Library's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2005 along with specific comparative information as required.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

C. Summary of Net Assets

The following schedule summarizes the net assets at December 31,

Assets	<u>2005</u>	<u>2004</u>
Current Assets	<u>\$234,186</u>	<u>\$210,997</u>
Non Current Assets		
Capital Assets	237,835	222,942
Less Accumulated Depreciation	<u>(153,159)</u>	<u>(135,685)</u>
 Total Non Current Assets	<u>84,676</u>	<u>87,257</u>
 Total Assets	<u>\$318,862</u>	<u>\$298,254</u>
 Liabilities		
Current Liabilities	<u>\$ 4,940</u>	<u>\$ 5,192</u>
 Net Assets		
Invested in Capital Assets Net of Related Debt	84,676	87,257
Restricted for Donor Designated Purchases	3,503	0
Unrestricted	<u>225,743</u>	<u>205,805</u>
 Total Assets	<u><u>\$313,922</u></u>	<u><u>\$293,062</u></u>

D. Analysis of Financial Position

During the fiscal year ended December 31, 2005, the Library's net assets increased by \$20,860. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2005, \$24,400 was recorded for depreciation expense.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

2. Capital Outlay Acquisitions

For the fiscal year ended December 31, 2005, \$26,303 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, current year disposals and the current year's depreciation is a decrease to capital assets in the amount of \$2,581 for the fiscal year ended December 31, 2005.

E. Results of Operations

For the fiscal years ended December 31, the results of operations were:

	<u>2005</u>	<u>2,004</u>
General Revenues		
Property Taxes	\$ 86,260	\$ 81,518
Investment Earnings	3,414	1,636
State Sources	46,329	53,690
Gain (Loss) of Disposal of Capital Assets	(4,484)	0
Other	<u>9,104</u>	<u>11,058</u>
Other General Revenues	<u>\$ 140,623</u>	<u>\$ 147,902</u>
Program Revenues		
Charges for Services	\$ 1,831	2,477
Operating Grants	<u>54,110</u>	<u>46,437</u>
Total Program Revenues	<u>\$ 55,941</u>	<u>\$ 48,914</u>
Total Revenues	<u>\$ 196,564</u>	<u>\$ 196,816</u>
Expenses		
General Government	<u>\$ 175,704</u>	<u>\$ 177,028</u>
Changes in Net Assets	<u><u>\$ 20,860</u></u>	<u><u>\$ 19,788</u></u>

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

1. Property Taxes

The Library levied .2345 mills of property taxes for operations. For 2005, the Library recognized \$86,260 of property tax revenue.

2. State Sources

The majority of the state sources is comprised of penal fines received from Missaukee County. The Library collected \$46,329 in penal fines for 2005.

3. Grants

The Library funds a portion of its operations with grants. For the fiscal year ended December 31, 2005, grants accounted for \$54,110.

G. General Fund Budgetary Highlights

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on January 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on December 31.

For 2005, the Library amended the general fund budget various times throughout the year. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Revenues	\$ 181,178	\$ 192,070	\$ 196,318	\$ 4,248
Total Expenditures	177,178	177,178	177,607	(429)
Excess of Revenues Over Expenditures	\$ 4,000	\$ 14,892	\$ 18,711	\$ 3,819

The variance in the Total Revenues Original Budget to Final Budget was an increase of \$10,892. There was no change in the Total Expenditures Original Budget to Final Budget.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

H. Capital Assets

At December 31, 2005, the Library had \$237,835 in capital assets, including equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$24,400 bringing the accumulated depreciation to \$153,159 as of December 31, 2005.

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Missaukee District Library, 210 South Canal Street, PO Box 340, Lake City, Michigan, 49651.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 130,914
Taxes Receivable	86,248
Prepaid Expenses	17,024
Total Current Assets	<u>234,186</u>

NON CURRENT ASSETS

Capital Assets	237,835
Less: Accumulated Depreciation	<u>(153,159)</u>
Total Non Current Assets	<u>84,676</u>
TOTAL ASSETS	<u><u>\$ 318,862</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 1,426
Accrued Liabilities	3,514
Total Liabilities	<u>4,940</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	84,676
Restricted for Donor Designated Purchases	3,503
Unrestricted	<u>225,743</u>
Total Net Assets	<u>313,922</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 318,862</u></u>

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	GRANTS	ACTIVITIES
				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Recreation and Culture	\$ 175,704	\$ 1,831	\$ 54,110	\$ (119,763)
<u>GENERAL REVENUES</u>				
Property Taxes				86,260
Investment Earnings				3,414
State Sources				46,329
Gain (Loss) on Disposal of Assets				(4,484)
Other				9,104
Total General Revenues				140,623
Change in Net Assets				20,860
NET ASSETS - Beginning of Year				293,062
NET ASSETS - End of Year				\$ 313,922

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

BALANCE SHEET

DECEMBER 31, 2005

ASSETS

Cash	\$ 130,914
Receivables	
Taxes	86,248
Prepaid Expenditures	<u>17,024</u>
 TOTAL ASSETS	 <u><u>\$ 234,186</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 1,426
Accrued Liabilities	3,514
Deferred Revenue	<u>86,248</u>
 Total Liabilities	 <u>\$ 91,188</u>

FUND BALANCE

Reserved for:	
Prepaid Expenditures	\$ 17,024
Donor Designated Purchases	3,503
Unreserved	
Undesignated	<u>122,471</u>
 Total Fund Balance	 <u>\$ 142,998</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 234,186</u></u>

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

DECEMBER 31, 2005

Total General Fund Balance	\$ 142,998
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the fund

The cost of the capital assets is	237,835	
Accumulated depreciation is	<u>(153,159)</u>	84,676

Taxes receivable are not available to pay for current period
expenditures and therefore are reported as deferred revenue
in governmental funds

<u>86,248</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 313,922</u></u>
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The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2005

REVENUES

Taxes	
Property Tax	\$ 81,530
State Grants	
Restricted Grant - State of Michigan	10,995
Penal Fines	46,329
Contributions from Local Units	
County Appropriations	34,048
Charges For Services	
Copy Machine Receipts	1,831
Interest and Rents	
Earnings on Investments and Deposits	3,414
Other Revenue	
Donations/Grants	14,125
Book Fines	1,720
Sales of Books and Sweatshirts	1,660
Miscellaneous	666
	<hr/>
Total Revenues	\$ 196,318

EXPENDITURES

Recreation and Culture

Personal Services	
Salaries	\$ 66,050
Employee Fringe Benefits	
Employee Insurance	5,585
Payroll Taxes	9,201
Supplies and Materials	
Other Supplies	7,305
Other Services and Charges	
Purchased Services	
Legal and Professional Services	75
Advertising	50
Administration, Bookkeeping and Auditing	5,014
Building Lease	34,048
Equipment Lease	293

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2005

Telephone	1,830
Insurance	4,904
Travel	30
Repairs and Maintenance	2,502
Other Professional and Technical	2,436
Other	
Summer Reading Program	284
Library Board Stipends	1,280
Miscellaneous	5,803
Dues and Fees	305
Internet Connection	1,303
Workshops	436
Capital Outlay	
Library Books	17,397
Periodicals	2,570
Equipment, Furniture and Fixtures	8,906
Total Expenditures	<u>\$ 177,607</u>
Excess of Revenues Over (Under) Expenditures	\$ 18,711
<u>FUND BALANCE</u> - Beginning of Year	<u>124,287</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 142,998</u></u>

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

Net change in General Fund Balance	\$ 18,711
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(24,400)
Capital Outlay	26,303
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold net of accumulated depreciation.	
	(4,484)
Revenue is recorded on the accrual method in the statement of activities; In the governmental funds it is recorded on the modified accrual method and not considered available:	
Taxes Included in Deferred Revenue - Beginning of Year	(81,518)
Taxes Included in Deferred Revenue - End of Year	<u>86,248</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,860</u></u>

The notes to the financial statements are an integral part of this statement.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Missaukee District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Missaukee District Library was created as a District Library on May 25, 1993, by agreement between Missaukee County and the City of Lake City pursuant to Act 24 of the Public Acts of 1989. The Library provides services to the District defined as the entire geographic area of Missaukee County excluding Clam Union Township and the Houghton Lake School District. The Library board consists of seven members. The Missaukee County Board of Commissioners appoints five board members and the Lake City Council appoints two members.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Basis

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Basis

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes, state aid and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

- (I) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan statutes. State statutes authorize the Library to invest funds as follows:
- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
 - (c) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In bankers' acceptances of United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - (g) In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Library. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A Library that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years
Buildings	50 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

MISSAUKEE DISTRICT LIBRARY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable

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appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits and investments are all on deposit with Chemical Bank or 5/3 Bank of Lake City.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2005, none of the library's bank balance of \$134,008 was exposed to custodial credit risk because none of it was uninsured or uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

B. Property Taxes

The Library receives revenue from a countywide library millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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For the year ended December 31, 2005, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	0.2345/\$1,000

Because substantially all of the taxes raised by this millage are not received by the Library until the following year, and because the tax revenue is not budgeted until the following year, recognition of the entire 2005 tax levy of \$86,248 was deferred until 2006, under the modified accrual basis of accounting at the fund level.

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets:				
Books	\$ 102,813	\$ 17,397	\$ 11,410	\$ 108,800
Furniture & Fixtures	68,969	3,534	0	72,503
Equipment	51,160	5,372	0	56,532
Total Capital Assets	\$ 222,942	\$ 26,303	\$ 11,410	\$ 237,835
Less accumulated depreciation for:				
Books	\$ 55,967	\$ 13,186	\$ 6,926	\$ 62,227
Furniture & Fixtures	40,030	7,091	0	47,121
Equipment	39,688	4,123	0	43,811
Total accumulated depreciation	\$ 135,685	\$ 24,400	\$ 6,926	\$ 153,159
Net capital assets	\$ 87,257	\$ 1,903	\$ 4,484	\$ 84,676

Depreciation for the fiscal year ended December 31, 2005 amounted to \$24,400.

IV. OTHER INFORMATION

A. Building Leases

The building in which the Library is located is owned by Missaukee County. The County leases the building to the Library at a cost of \$34,048 a year. The lease amount is determined on a year-to-year basis. As of December 31, 2005, the District Library had prepaid \$17,024 of its 2006 lease requirement.

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B. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

C. Endowments

On December 17, 2003, two endowments were established with the Cadillac Area Community Foundation. The Margaret Louise Hollingsworth Endowment was established with \$100,000. The earnings on the endowed balance are available to be used by the Library for such things as additional programs, books, audiovisual material, and additional items that may advance education and literary needs of the Library District. The Charles R. Ardis Endowment was established with \$100,000. The earnings on the endowed balance are available to be used by the Library for unforeseen expenses towards maintaining the existing library building architecturally and with the character as was originally donated by Charles and Virginia Ardis. Requests for funds will be reviewed by the Cadillac Area Community Foundation Advisory Committee. Additional endowments may be added to these initial endowments by anyone wishing to contribute.

<u>ENDOWMENTS</u>	<u>ENDOWED BALANCE 12-31-2005</u>	<u>EARNINGS BALANCE 12-31-2005</u>	<u>AMOUNT LIBRARY DREW FOR THE YEAR ENDING 12-31-2005</u>
Margaret Louise Hollingsworth	<u>\$ 106,548</u>	<u>2,501</u>	<u>4,091</u>
Charles R. Ardis	<u>\$ 100,200</u>	<u>5,772</u>	<u>0</u>

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
Taxes				
Property Tax	\$ 76,780	\$ 76,780	\$ 81,530	\$ 4,750
State Grants				
Restricted Grant - State of Michigan	10,000	10,000	10,995	995
Other State Grants	500	500	0	(500)
Penal Fines	53,000	53,000	46,329	(6,671)
Contributions from Local Units				
County Appropriations	34,048	34,048	34,048	0
Charges For Services				
Copy Machine Receipts	1,700	1,700	1,831	131
Interest and Rents				
Earnings on Investments and Deposits	1,200	1,200	3,414	2,214
Other Revenue				
Donations/Grants	400	11,292	14,125	2,833
Book Fines	1,700	1,700	1,720	20
Sales of Books and Sweatshirts	1,000	1,000	1,660	660
Miscellaneous	850	850	666	(184)
Total Revenues	\$ 181,178	\$ 192,070	\$ 196,318	\$ 4,248

EXPENDITURES

Recreation and Culture

Personal Services

Salaries \$ 66,000 \$ 66,000 \$ 66,050 \$ (50)

Employee Fringe Benefits

Employee Insurance 5,490 5,490 5,585 (95)

Payroll Taxes 9,000 9,000 9,201 (201)

Supplies and Materials

Other Supplies 6,400 6,400 7,305 (905)

Other Services and Charges

Purchased Services

Legal and Professional Services 200 200 75 125

Advertising 150 150 50 100

Administration, Bookkeeping and Auditing 5,000 5,000 5,014 (14)

Building Lease 34,048 34,048 34,048 0

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
Equipment Lease	250	250	293	(43)
Telephone	2,000	2,000	1,830	170
Insurance	5,000	5,000	4,904	96
Travel	200	200	30	170
Repairs and Maintenance	2,421	2,421	2,502	(81)
Other Professional and Technical	2,800	2,800	2,436	364
Other				
Summer Reading Program	500	500	284	216
Library Board Stipends	1,200	1,200	1,280	(80)
Miscellaneous	5,855	5,855	5,803	52
Dues and Fees	500	500	305	195
Internet Connection	1,200	1,200	1,303	(103)
Workshops	400	400	436	(36)
Contingency Fund	3,600	3,600	0	3,600
Capital Outlay				
Library Books	16,000	16,000	17,397	(1,397)
Periodicals	3,000	3,000	2,570	430
Equipment, Furniture and Fixtures	5,964	5,964	8,906	(2,942)
Total Expenditures	<u>\$ 177,178</u>	<u>\$ 177,178</u>	<u>\$ 177,607</u>	<u>\$ (429)</u>
Excess of Revenues Over (Under) Expenditures	\$ 4,000	\$ 14,892	\$ 18,711	\$ 3,819
<u>FUND BALANCE</u> - Beginning of Year	<u>133,379</u>	<u>133,379</u>	<u>124,287</u>	<u>(9,092)</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 137,379</u></u>	<u><u>\$ 148,271</u></u>	<u><u>\$ 142,998</u></u>	<u><u>\$ (5,273)</u></u>